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Teach Your Child to Invest

You don't have to be a Wall Street tycoon to teach your child the basics of investing. In fact, you only need to understand the basics yourself. For a quick review see our Treasurer's Tips about [Learning How to Invest](#) and [Learning How to Invest in the Stock Market](#).

When to Start

By the time your child is around 12 years old, he or she should be able to grasp the concept of compounding interest.

- One way to help explain compounding is ask your child if they want a \$20 bill or a penny that doubles every day for 30 days. You better hope they choose the \$20 because in 30 days the penny would be worth about \$5.4 million. Although virtually no investment has an interest rate that high, your child will begin to understand how money can make money.

How to Start

After they understand compounding, begin to teach them about different types of investments. You can even begin investing in some of these while your child is still in diapers. Your child may show more interest in learning about investing if he or she already has money invested.

- **Bonds**- Explain that bonds are certificates of debt issued to raise money for the government and corporations. Investors in bonds are lending money to these institutions to make more money in the long run.
- **Stocks**- Explain that stocks are shares of ownerships in companies. You own stock in hopes that the company will profit so the price of your stock will go up. The best place for long-term investments is in the stock market.
- **Mutual Funds**- Explain that a mutual fund is money from individual investors, companies, and other organizations that a professional manager invests in some combination of stocks, bonds and/or other securities.

The Stock Market

Help your child begin to understand the stock market by helping them start a mock portfolio. You can find sites on-line that allow you to track stocks for free. Have your

child pick around 20 stocks and list the stock price, ticker symbol, and today's date of each. Have them write down the price of each stock every day for at least a couple of weeks. Though this does not actually show us how the companies are doing (investing is for the long-run, so you should know more about the company than day-to-day stock prices), this will help your child understand the basics of the stock market. They may also develop a deeper interest in how things work.

Your Little Wall Street Tycoon

If your child catches the investment bug, help them learn more by finding websites geared towards kids that teach them basics of the stock market. You can also open a brokerage account for your child. Some "custodian" accounts cost less in fees than adult accounts. Talk to a financial advisor for help. Your child might even pay for their own college tuition!